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FCC PCS PANEL DISCUSSIONS

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FEDERAL COMMUNICATIONS COMMISSION
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PREPARED REMARKS OF DR. C. J. WAYLAN

GTE PERSONAL COMMUNICATIONS SERVICES

PANEL I: PCS DEMAND PREDICTIONS

APRIL 11, 1994

I would like to thank the Commission for the opportunity to offer comment on such an important proceeding.

My name is Jerry Waylan. I am Executive Vice President Marketing and Business Development for GTE Personal Communications Services. I am responsible for GTE's new wireless voice and data services, including our planning for PCS using the new 2 GHz frequencies and for our PCS activities using existing cellular frequencies.

Today I would like to discuss PCS demand within the context of GTE's extensive marketing field trial of PCS using cellular frequencies in Tampa. First, some general observations.

We believe that PCS will attract users wanting an improved lifestyle. PCS offers something new - the ability *to call a person, not a place*. PCS and Cellular might be considered part

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of a family of services encompassing voice, data and imaging applications.

By the year 2005, we expect total wireless voice services - including both Cellular and PCS - to reach some 30% of the population. This translates into a market penetration of approximately 70% of U. S. households. Our prediction falls within a narrowing range of PCS demand forecasts.

However, it is important to point out that these projections are highly dependent on the assumption that the service truly meets market needs. In large part, achieving these demand predictions will depend on the marketing savvy of GTE and its competitors. But it will be influenced by the decisions of this Commission.

GTE completed an extensive market trial late last year in which we attempted to establish better understanding of these market needs. For 18 months our Tele-Go^{SM} trial gave 3,000 customers a wireless phone which operated as an *enhanced cordless phone* around home and as a *cellular phone,* using the local cellular system, beyond the home coverage. Importantly, the phones maintained the *same telephone number* regardless of location.

In conducting the trial we encountered several significant hurdles. First, we found that the residential market segment typically views cellular service as costly and complex. Customers mainly want to be in touch from the local playground,

school, grocery store or while travelling between home and these locations. And, they want to receive calls to the same phone number in these circumstances.

Second, the Tele-Go[sm] telephone needed to be simple and user-friendly. To meet this need, we generated dial tone at the handset, simulating a cordless telephone. We also enhanced the information displayed at the handset to tell the user when they were in the home area and when they were in other zones where per-minute usage charges applied.

Third, Tele-Go[sm] pricing needed to be simple and uncomplicated. Our experience indicates that the PCS market is very price elastic and demand is influenced more by price than by any other variable. Although each of the elements I've described need to be present to attract customers, price ultimately will be the major factor in determining PCS market penetration.

In short, in our Tampa field trial we attacked all four components of the marketing mix: we created a *new product*, both in terms of handset functions and in terms of the home zone-premium zone service area concept; we changed the *promotion* by creating the new brand of wireless service -- Tele-Go[sm] --to project the image of a cordless phone which can go anywhere; we changed the *place*, or distribution, by creating a different sales technique to directly target the desired market; and we simplified the *pricing* structure.

The results of our trial were very encouraging and certainly support our 30% penetration estimate. But let me emphasize again - this estimate assumes that key elements of the service *are understood, addressed and brought into line with customer expectations.*

Ultimately then, the issue before the Commission is not whether the inherent demand for PCS exists. It does. Rather, how can the FCC bring PCS to the public in the most time-efficient and cost-efficient manner without impeding the ability of any supplier to anticipate and to meet these customer expectations?

Obviously the Commission should leave to individual companies the marketing, sales, and technology challenges. However, the FCC can do a great deal to speed innovation and deployment by establishing uniform rules and equal opportunities for all wireless participants. No company should be constrained in its ability to anticipate market needs and to try to meet them in a timely manner. In this regard the Commission is to be commended for taking an important first step in its Regulatory Parity decision. GTE looks forward to equal regulatory treatment of cellular, ESMR and PCS providers, all of whom serve a single market.

Finally the FCC has the opportunity to review important market structure issues which will affect the technology deployment and service pricing aspects so critical to serving this PCS market.

We believe that the two 30 MHz licenses defined by Rand-McNally MTAs are without question the most valuable. 30 MHz, in our opinion, is very generous. In fact, 30 MHz is so generous it may encourage some license winners to deploy spectrally inefficient technologies. Finally, the MTA coverage offers a generously large geographic service area which is both consistent with wide communities of interest and permits competition against the much smaller MSA/RSA cellular areas and against ESMR providers.

By contrast, we believe the 10 MHz licenses will be considerably lower in value - indeed perhaps of *no value* in many smaller markets. The much smaller bandwidth will make it difficult to achieve a user base to cover fixed costs. While the BTA geography offers the advantage of being larger than cellular MSAs/RSAs, it may be too small to permit effective competition against significantly larger 30 MHz MTA markets.

In addition to the points outlined above, two other factors will influence the respective values of 30 MHz and 10 MHz licenses.

First, the 30 MHz allocations are located lower in the 2 GHz band and represent only a modest challenge in terms of incumbent relocation. By contrast, the 10 MHz allocations are located in the upper end of the band and represent a more difficult incumbent relocation task. Second, technology availability as well as the larger, 80 MHz offset between send and receive channels for the 30 MHz allocations may result in less expensive handsets than for the 10 Mhz allocations.

These differences between the 10 MHz and 30 MHz licenses are important - especially as they affect a provider's ability to meet features and prices demanded by the marketplace. We therefore encourage the Commission to review its present PCS market structure and the recommendations submitted by GTE, the Cellular Telecommunications Industry Association, and many others. All service providers must have the same flexibility and opportunity to respond to the customer needs which we found were so critical in our trial. Uniform 20 MHz allocations will best provide that opportunity and will ensure that the Commission's objectives for providing consumers timely and cost-efficient PCS are met.

Thank you.